

TO: Mr. W. I. Campbell

DATE: February 22, 1993

FROM: B. A. Reuter

SUBJECT: Operations Highlights — Week Ending 2/19/93**Stockton Street Restructuring**

Phase One of a three phase restructuring at Stockton Street is complete and has been communicated to the work force. The major organizational changes in this phase include:

- Combining the Plant Maintenance and the Resident Engineering groups to gain synergies.
- Expanding the role of the line supervisors by eliminating group supervisor positions.
- Realigning Cigarette Manufacturing from shift superintendents to department managers assigned to a specific floor.
- Establishing resources to support the Quest/TQI effort and the Business Planning and Analysis staff.

Uncased Box Blank Test in Cabarrus

An uncased box blank test was run on E Row February 15-18. Currently, box blanks for hard pack cigarettes come packaged in cardboard boxes with straps. The potential benefits of receiving box blanks uncased include no heavy lifting of boxes, less material waste, less packing material/less to dispose of and, with expansion, material handling can be automated. Preliminary results look favorable.

Machinery Rebuild Costs

Negotiations have been completed with the major machinery vendors regarding the labor cost of contract rebuild for 1993. Increases of 3.4% for G.D and Hauni, and 5.2% for Molins, were agreed upon. Each of the vendors had requested a 5.5% increase. The negotiated increases are within 1993 original budget constraints.

Cabarrus Manufacturing Expansion Equipment

An examination of the Protos 2 cigarette maker for potential installation at Cabarrus has been initiated. Engineering and Cabarrus plant representatives will visit Imperial Tobacco Company in Southampton, England next week to observe a Protos 2 in operation and discuss machine performance. The maker at Imperial is the only operating unit outside of Hauni's development facility. The group will then visit Hauni-Hamburg to discuss availability of documentation and training and potential delivery schedules for Cabarrus.

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The Protos 2 is a 14,000 CPM cigarette maker employing dual-rod technology and provides a better speed match to the Focke 700 box packer, allowing better packer utilization than the Protos 100 at 10,000 CPM.

Consolidation of Ohio Warehouses

The Transportation Department is continuing its program to streamline our warehousing system by proposing to close Cincinnati and Toledo, Ohio and consolidate this stock at Columbus and Dayton. Until the last couple of years, we maintained six warehouses in Ohio, none being much than an hour's drive apart. Cleveland and Akron are gone and, with the elimination of two more, greater efficiencies can be realized in trucking and warehousing costs as well as internal inventory management.

Packaging Development

Laser cut pack blanks of .006" thick aluminum sheet have been ordered for the next consumer test of aluminum and plastic packs. Two models of the booklet pack have been made, and a preliminary evaluation will be completed this week.

Leaf

Philip Morris USA purchased 19.3% of total U.S. Burley offerings during the 11th week of sales at a \$182.02 cwt. average. There were no PM International purchases this week as all requirements have been fulfilled. Corporate purchases this season are 278.0 million pounds, representing 38.2% of gross sales of 728.4 million pounds. Stabilization receipts for the week were 1.6 million pounds, or 73.9% of sales. The Stabilization to date has received 18.7% of sales or 136.4 million pounds. The crop is approximately 99.4% sold.

The weekly and total season estimated Burley market purchases are as follows:

	Weekly	Total Season
Philip Morris USA	19.3%	28.8%
Philip Morris International	0.0%	9.4%
Total Philip Morris	19.3%	38.2%
R.J. Reynolds	1.9%	5.3%
Brown & Williamson	0.0%	13.4%
Lorillard	0.0%	3.8%
Liggett & Myers	0.0%	0.3%
American	0.0%	1.5%
Pool	73.9%	18.7%
Other	4.9%	18.8%
TOTAL	100.0%	100.0%

Sales of Pennsylvania Maryland tobaccos are complete. Philip Morris' year-to-date purchase is 1,026,072 pounds at a \$100.12 cwt. average.

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Burley Market 1992 Crop					
	Market Sales		PM USA ¹ Purchases		
	lbs	\$Price/lb	lbs	\$Price/lb	% of Market
Week No. 11	2.2	\$1.76	.4	\$1.82	19.3%
Season-to-Date 1992 Crop	728.4	\$1.82	209.6	\$1.82	28.8%
PM Estimated Gross	732.7				
Year-to-Date '91 Crop ²	704.3	\$1.79	251.8	\$1.80	35.8%
Final '91 Crop	708.1	\$1.79	252.5	\$1.80	35.7%

1 Including dealer

2 Based on comparative sales days

cc: S. Darrah
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